

MINUTES

BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, IN 46204

August 13, 2001

Trustees Present

Richard Doermer, Chair
Nancy Turner, Vice Chair
Jonathan Birge
Teresa Ghilarducci
Steven Miller

Others Present

Mike Gery, Executive Assistant to the Governor
Diana Hamilton, Special Liaison to the Governor for Public Finance
Stephanie Rhinesmith, Indiana Development Finance Authority
Stephanie Grieser, William M. Mercer Investment Consulting
Micah Fannin, William M. Mercer Investment Consulting
Eric Swank, Ice Miller
Richard Boggs, Burnley Associates
Karen Franklin, National City Bank
Peter A. Keliuotis, Strategic Investment Solutions
Curt N. Smith, Strategic Investment Solutions
Michael Beasley, Strategic Investment Solutions
Don Hilt, PERF Retiree
E. William Butler, PERF Executive Director
Lynda Duncan, Administrative Assistant to the Executive Director
Patricia Gerrick, PERF Chief Investment Officer
Joe Duncan, PERF Investment Analyst
Thomasina Wilson, PERF Administrative Assistant to Chief Investment Officer
William Hutchinson, PERF Division Director, Benefits Administration
Diann Clift, PERF MIS Director
Patrick Lane, PERF Director of Communications
Kenneth Stoughton, PERF Director of Human Resources
R. Thomas Parker, Director, 1977 Police & Fire Fund
Linda Stahl, Recording Secretary

ITEMS MAILED TO THE BOARD PRIOR TO MEETING

- A. Agenda of August 13, 2001 Meeting
- B. Minutes:
 - ❑ June 26, 2001 Board of Trustees Meeting
- C. Reports, Summaries, Memorandums and/or Letters Concerning:
 - ❑ Quarterly Performance Analysis
 - ❑ Quarterly Investment Compliance

Prior to today's meeting, an alternative investments educational session was conducted for the Board of Trustees (report on file). The regular meeting of the Board then followed.

A quorum being present, the meeting was called to order.

1. MINUTES APPROVAL

MOTION duly made and carried to approve the Minutes of the June 26, 2001 meeting of the Board of Trustees.

Proposed by: Steven Miller
Seconded by: Jonathan Birge
Votes: 5 for, 0 against, 0 abstentions

2. DISCLOSURES

Richard Doermer – Bank One stock ownership.

Nancy Turner – Met over lunch with representatives of the Retired Indiana Public Employees' Association.

3. ADMINISTRATIVE

Staff Introductions

Mr. Butler introduced additions to PERF staff as follows:

Joe Duncan – Investment Analyst
Lynda Duncan – Administrative Assistant to the Executive Director
Ed Gohmann - Legal Counsel
Ken Stoughton – Director of Human Resources
Thomasina Wilson – Administrative Assistant to the Chief Investment Officer

RIPEA Request

The Retired Indiana Public Employees' Association (RIPEA) recently contacted PERF indicating their desire to meet with the Board of Trustees and explain RIPEA's purpose (i.e. what they do and what they hope to do). Mr. Butler noted that RIPEA is a lobbying organization with a membership of approximately 25,000 retirees. Their request was discussed previously at a meeting of the Benefits Administration Committee, wherein it was determined that the matter should be referred for full Board attention.

Following discussion of the issue, the Trustees agreed that an invitation would be extended to RIPEA to make a presentation before the Board at its meeting in September.

Actuarial Audit Update

Mr. Butler noted that he had undertaken several discussions with William M. Mercer concerning the development of a Request for Proposal (RFP) for actuarial audit services. Mercer has reviewed the two most recent annual valuations for all six plans administered by PERF, as well as the most recent experience study. In an effort to determine what deficiencies the PERF data may have on an actuarial profile, they were also provided with a copy of a letter generated by Navigant (PERF's data cleanup consultant) describing some of the problems with the data. Mercer is still reviewing the Navigant letter and trying to get a better sense of the manner in which an RFP should be drafted. A draft should be completed within the next 30 days.

Legislators' Loan Program

By a recent act of legislation, legislators are now able to obtain loans from their defined contribution accounts at PERF. They are under certain IRS restrictions, namely a maximum of a \$50,000 loan and the ability to secure only two such loans per year with a maximum payback period of five years. PERF has drafted a rule for the administrative rulemaking process to include certain provisions for the administration of the loan program. Because the legislation provides that the program will be administered by the Board, it is within their province to determine an interest rate to be applied on such loans.

Following discussion of this matter,

MOTION duly made and carried to establish an interest rate for the legislators' loan program of 1% over Prime. Additionally, an educational brochure emphasizing the potential risk of default will be prepared and mailed in response to each loan request.

Employer Advisory Group

Patrick Lane reported that a number of employers have indicated their interest in participating in an Employer Advisory Group. These employers have a strong sense of ownership in the way the Group should be formed. Therefore, staff feels it would be good to organize 6-7 of those employers to lay out the composition of the Advisory Group, the agenda of items they would like to address, the staff they would like to have accessible to them, etc. An initial meeting with a smaller number of employers would, in all likelihood, be more fruitful than opening it up to a group of 12-15. Therefore, staff has identified a group of employers who would pretty broadly represent all employers and will be moving forward to establish the first meeting of the Advisory Group.

Noble County Issue

Recent legislation mandated the Board of Trustees to transfer McCray Memorial Hospital's employer reserve account to the fund account of Noble County. Consequently, Noble County's employer reserve increased considerably by \$5-6 Million. They now feel that since they have such a large reserve, there is no need for them to contribute to PERF. Mr. Butler has undertaken discussion with the attorney representing the County Commissioners and explained that the withholding of such contributions creates some issues in PERF's actuarial management and the measuring of the Fund. It was agreed that further discussion should be undertaken with the Commissioners to explain how the employer contribution stream works and to work with them to possibly recalculate their employer rate, taking into account the excess credited to them from McCray Hospital. PERF's actuary indicates that such a recalculation would lower the Noble County employer contribution rate to 1%, which is the minimum rate established by the Board of Trustees. Noble County's current rate is 5%.

Space Planning

Due to the Board's recent approval of a staff development plan to include the addition of another 26 positions, PERF management is looking at ways to accommodate the addition of that staff within its current facilities. They have approached current 143 West Market Street tenants concerning their amiability to vacating office spaces with the following results:

- American Petroleum Council – Has accepted a buyout provision that would cover the expense of moving them to another building downtown.
- Indiana Coal Council - Has agreed to move, and they are currently looking for other office space. The expiration of their lease is October 31, 2001, but they have been given a pending status to allow them to find other space.
- CSX Transportation - Will be leaving by the end of October and possibly the end of September.

- Governor's Planning Council – The Council occupies half of the 4th floor space with PERF occupying the other half. They have indicated they will be sending PERF their provisions of a buyout.

Should all four tenants vacate, PERF would have contiguous occupancy from the 3rd to 8th floors of the building.

The 125 West Market Street building currently houses Eclectic Information and Convansys staffs, occupying 4,619 square feet of the 1st floor. The basement, 2nd, and 3rd floors are all vacant.

At a recent meeting of the Benefits Administration Committee, discussion was also undertaken concerning the possibility of moving into the 135 West Market Street building, the property located between the two current PERF holdings. The building is comprised of 20,500 square feet over three floors, a basement and a partial attic. Research into that matter indicates that the property is not well designed for PERF's purposes. To make it useable would entail significant cost. Also, the building has three retail leases that do not expire for another two years. The asking price for the building is approximately \$800,000, with \$20-30 per square foot projected as an approximate cost for renovations.

Question was raised concerning the amount of additional space needed given the Board's staffing plan. Mr. Lane responded that staff had met with the firm of Lamson & Condon to do some space planning. While it has all been very preliminary, they estimate occupancy of approximately 150 people between the 143 West Market Street and 125 West Market Street properties. Utilizing a more open space design, that number could increase to as many as 180.

Information Technology Update

➤ SIRIS

The operations team of the SIRIS project continues to meet weekly in an effort to identify problems or opportunities for improvement. The team has proven greatly beneficial and will remain in place indefinitely. Stage 2 design and development is underway. Testing will begin in December and run through February with rollout scheduled for March 2002.

Next year a project will be undertaken to incorporate the utilization of e-business, thereby allowing PERF to conduct business over the web site. Before such a project can be undertaken, however, it will be necessary to ensure that the infrastructure is in place and the Fund's data is clean to support such an undertaking. Staff is currently working to market the idea to employers and to secure their participation. The top 132 employers will be targeted initially, thereby providing for electronic transmission of 78% of all member information. The service will then be expanded to all PERF employers.

➤ Phone System

A Request for Proposal was issued for a replacement phone system. A bidder's conference was conducted on August 7 with eight entities represented. Proposals are to be delivered by August 23 with work to begin on September 9 and a new system in place by the end of October.

➤ Backfile Conversion

A total of two million documents have now been shipped to San Antonio, Texas for conversion, making the project approximately one-third complete. The project is scheduled for completion in April 2002 and is well within its cost expectation.

➤ Data Cleanup

The pilot data cleanup project is going well with data having been gathered and cleaned for Indiana University, Purdue University and the State of Indiana. The consultant is within 10,000 Social Security numbers of completing the project. They will then begin developing quality assurance reports to ensure that the data entered into SIRIS is, in fact, the data intended to be entered. Efforts are also underway to contact the employers to certify the accuracy of data currently on the system. The pilot project is scheduled for completion the end of November. The only thing that may still be outstanding by that time is receipt of the employer certifications.

Staffing Update

Ken Stoughton provided a staffing update as follows:

Position	Status
Accountants	Review of all candidate resumes is currently underway.
Active Member Counselor	The position has been filled with a member of the temporary staff.
Call Center Manager	Discussions are underway with the Teachers' Retirement Fund in an effort to pursue a collective interviewing process.
Chief Benefits Officer	Interviews have been completed and candidates forwarded for the final selection process.
Chief Financial Officer	Interviews are underway with the process to be completed and the position filled by September.

Internal Auditor	A small group of individuals have applied for the position. Three of those candidates have been selected for interview.
Member Account Specialist	Interviews have been completed and candidates forwarded for the final selection process
Outreach Services Manager	Interviews have been completed and candidates forwarded for the final selection process.

Mr. Stoughton also reported on other initiatives underway by the Human Resources Department as follows:

➤ PERF Employee Policies

All policies are currently under review for incorporation into a binder for employee access. As changes are found to make the policies more appropriate both now and in the future, those will be submitted to the Board for approval.

➤ Anti-harassment Presentation

An anti-harassment presentation is being prepared for all PERF employees in the belief that awareness and enforcement of anti-harassment principles will reduce the number of incidents that occur in the workplace. This all stems from the Fund's responsibility to provide a hostile free workplace.

➤ CEBS Program

PERF and the Teachers' Retirement Fund are currently researching the possibility of utilizing a CEBS (Certified Employee Benefit Specialist) program for various staff members. The CEBS program is comprised of three two-day courses dealing with pensions. Individuals who complete all the courses earn the designation of Certified Employee Benefit Specialist.

4. POLICE & FIRE

Board reviewed a death benefit application filed in the matter of Ronald Conack, an employee of the Department of Transportation (INDOT) who worked as an appraiser in the Department of Land Acquisitions. On the morning of January 28, 2001, while driving from his designated station (his home in Lafayette) to the INDOT office in Indianapolis, Mr. Conack was involved in an automobile accident. Because he had plans of a personal nature that evening and felt uncomfortable using a State vehicle, Mr. Conack was using his own automobile. The purpose of his trip to Indianapolis was to meet with an Information Services staff member to complete the setup of his computer.

Statute provides a \$50,000 death benefit for a State employee who dies in the line of duty. Statute also defines “dies in the line of duty” as a death that occurs as a direct result of personal injury or illness resulting from the State employee’s performance of his/her duties. It does appear that Mr. Conack was traveling from his home as his official work station to a work-related meeting and did, therefore, die in the line of duty. PERF staff would recommend the approval of a death benefit in this case.

MOTION duly made and carried to approve a \$50,000 line-of-duty death benefit in the matter of Ronald Conack.

Proposed by: Nancy Turner
Seconded by: Steve Miller
Votes: 5 for, 0 against, 0 abstentions

The Trustees were also apprised of the fact that the next Pensions Secretaries Seminar will be conducted in October. As a matter of procedure, new legislation will be reviewed as well as an update provided on administrative procedures that may be of particular interest to the secretaries.

5. INVESTMENTS

Quarterly Performance Analysis

Micah Fannin, William M. Mercer, began with a second quarter performance report (report on file) and noted that the economy during the second quarter grew 0.7%, the slowest pace in eight years. The employment rate rose to 4.5%, and consumer spending increased, helping to keep the economy afloat. The index of U.S. manufacturing rose to a seven-month high, a sign the economy may be starting to recover from its factory-led slowdown.

With respect to the domestic equity market, small cap stocks once again outperformed large cap. However, growth was back in the leadership position outperforming value. Over the one-year period, small caps beat their large cap counterparts, and value was quite a bit ahead of growth. Looking out at the five year picture, large cap is still eking out a lead over small, and value versus growth is essentially equal.

The fixed income market saw mixed performance with short term notes outperforming long-term maturity issues. With the aggressive drop in interest rates, short term paper did best. High yield did very poorly. The steepening of the yield curve hurt long-term bonds. Corporate bonds were the best performers in the investment grade market.

On the international equity picture, dollar investors suffered through their seventh consecutive down quarter, as the EAFE Index fell 9%. A gain of 1.2% was realized

in local currency terms. Overall, emerging markets were up 4.0% in dollar terms. Performance within regions was very mixed. In the other asset classes, inflation indexed bonds performed well. The high yield bond market's momentum was stalled by corporate defaults and negative earnings.

The PERF total consolidated fund showed \$9,630 Billion, which is an increase of \$450 Million from last quarter. That was due mostly to investment appreciation. Small cap equity was significantly underweighted, as was international equity. Fixed income was overweighted. Small cap stocks outperformed their large cap counterparts and growth outperformed value. Overweighted positions in the corporate sector augmented results for Reams, Consecro, Seix, and Taplin. Longer duration postures hurt BlackRock and Utendahl.

Quarterly Compliance Report

Richard Boggs, Burnley Associates, continued with his 2nd quarter investment compliance report (report on file) by noting that all investment managers appeared to be following the investment styles for which they were hired. No significant violations of Guidelines were detected.

Securities lending income generation continued strong, with revenues received by PERF totaling nearly \$1 Million. No significant cash-collateral portfolio violations were detected. Trading and brokerage commissions averaged 3.0 cents per share. The S&P Index trades were at 2 cents, the large cap enhanced indexers traded at 3 cents and the small cap managers traded at 4-5 cents, the latter reflecting the lower liquidity and greater difficulties of such trades.

Asset allocations within the CRIF on June 30, 2001 were 43% large cap equities and 9% small cap equities. Allocations within the Police & Fire Pension Relief Fund were 25% indexed stocks and 75% indexed intermediate bonds.

Investment Policy Changes

During the educational session of the Board conducted earlier this date, an Investment Policy change was recommended to incorporate an "alternative assets" class to include real estate and alternative investments as follows:

SECTION 6. ASSET ALLOCATION

Selected Allocations

The following asset classes, target norms, and allowable ranges have been established:

<u>Asset Class</u>	<u>Target Norm</u>	<u>Allowable Range</u>
Domestic Equities	55% 53%	50-60%
International Equities	10%	5-15%
Fixed Income	32%	30-40%
Real Estate Alternative Assets	3% 5%	0-3% 0-5%

MOTION duly made and carried to change the Investment Policy to reflect a 5% allocation to alternative assets.

Proposed by: Steven Miller
Seconded by: Jonathan Birge
Votes: 5 for, 0 against, 0 abstentions

An international equity implementation rebalancing recommendation was also discussed. Specifically, the Board had previously moved that active international manager allocations would come from the indexed equity fund. However, recent market movement provides an opportunity to rebalance by taking \$500 Million out of the fixed income and transferring that for the funding of the international active. That would bring the asset allocation closer into line with the target.

MOTION duly made and carried to allocate \$500 Million from the fixed income indexed account and move it to international equity.

Proposed by: Jonathan Birge
Seconded by: Steven Miller
Votes: 5 for, 0 against, 0 abstentions

6. NEXT MEETING

The next meeting of the Board was previously set for September 7.

7. EXECUTIVE SESSION

An Executive Session of the Board followed to discuss personnel issues.

8. ADJOURNMENT

There being no further business, the meeting was adjourned.